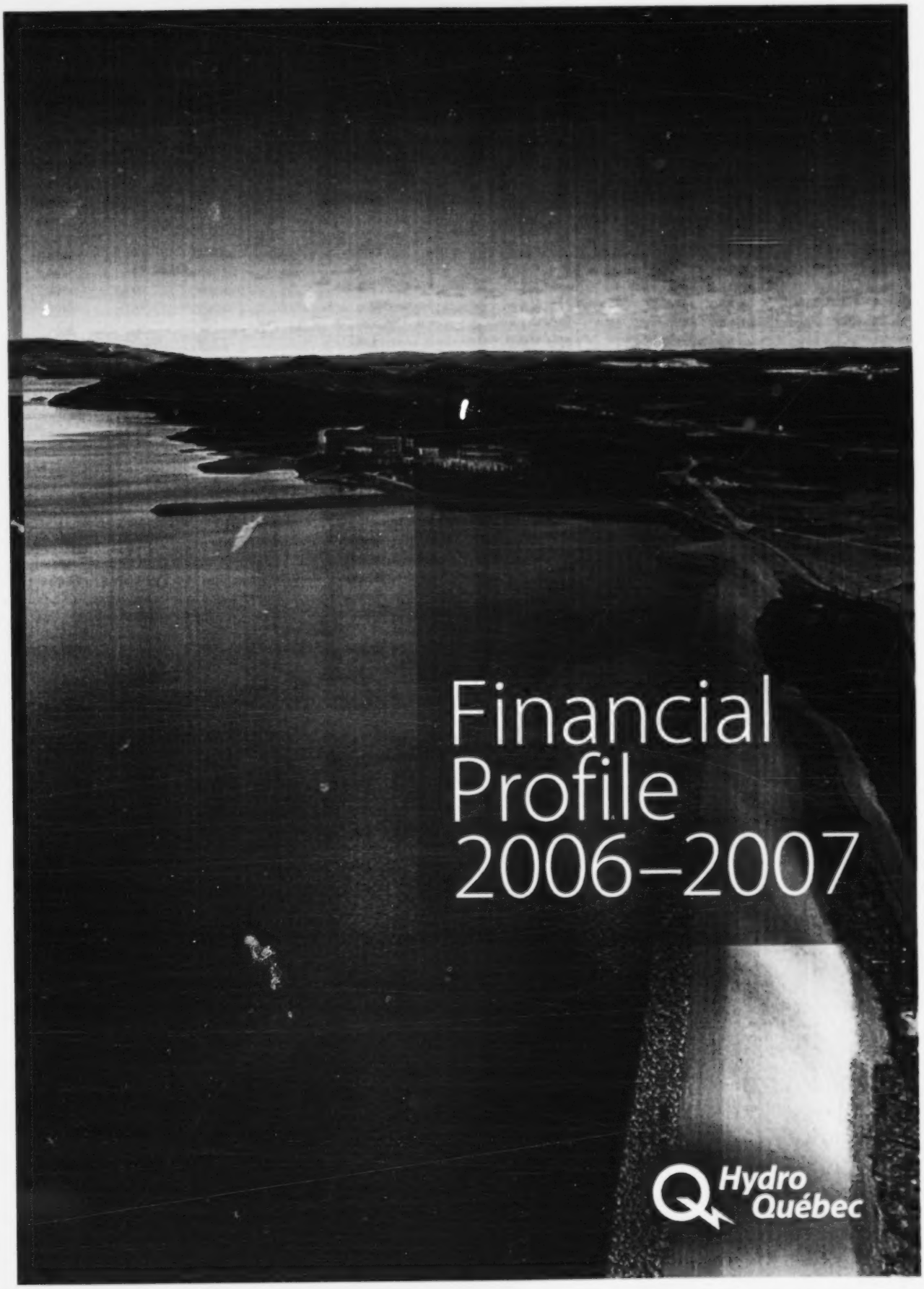
Financial
Profile
2006–2007
Hydro
Québec

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Prospective Information

This document contains statements of a prospective nature. They entail risks and uncertainties which may mean that Hydro-Québec's actual future results may differ considerably from those forecast. A number of risks and other factors to which Hydro-Québec is exposed may lead to changes in the results and events anticipated. These include, but are not limited to, competition, the economic environment, the business environment and Hydro-Québec's ability to achieve its strategic business objectives. Moreover, these prospective statements must in no way be interpreted as guarantees or assurances from Hydro-Québec as to its future results.

Units of Measure

kV – kilovolt (unit of voltage)
MW – megawatt (unit of power)
kWh – kilowatthour (unit of energy)
MWh – megawatthour, or one thousand kilowatthours
GWh – gigawatthour, or one million kilowatthours
TWh – terawatthour, or one billion kilowatthours
$M – millions of dollars
$B – billions of dollars

Currency

Unless otherwise indicated, monetary amounts are expressed in Canadian dollars.

Cover page:
Laforge-1 is one of the nine powerhouses in the La Grande complex. The 878-MW facility was commissioned in 1994.

Message from the Executive Vice President, Finance and Chief Financial Officer

Profitability and stability

Highlights of 2006 included the continued development of Québec's hydroelectric potential and the sale of Hydro-Québec's foreign assets, which yielded a non-recurring gain of over $900 million. As a result, consolidated net income reached a new high of $3.74 billion, compared with $2.25 billion the previous year. Income from continuing operations totaled $2.8 billion, up $446 million over 2005. This increase is mainly due to the recognition this year of a $234-million foreign exchange gain on debts and swaps in U.S. dollars.

The excellent results registered in 2006 allow Hydro-Québec to pay its sole shareholder, the Québec government, dividends of $2.34 billion. Of this amount, the shareholder has already paid $500 million—part of the gain arising from the sale this year of the company's stake in Transelec, in Chile—into the Generations Fund, which was established to reduce the burden of Québec's public debt. As well, since January 2007, Hydro-Québec Production has contributed to the Fund's financing by paying water-power royalties, in accordance with the Watercourses Act. By 2010, the cumulative contributions paid should total nearly $2.5 billion.

In the coming years, we expect to post annual profits of approximately $2.5 billion, while making major investments—totaling nearly $20 billion between now and 2010—in projects to maintain, improve and develop our generating, transmission and distribution facilities.

Hydroelectric development and complementary integration of wind power

In conjunction with the energy strategy adopted by its shareholder, Hydro-Québec plans to develop a portfolio of hydroelectric projects totaling 4,500 MW and integrate 4,000 MW of planned wind power by 2015. Hydro-Québec Production's projects now under construction—a portfolio totaling more than 1,400 MW that will add nearly 12 TWh in annual output—will increase our operating flexibility and strengthen the province's energy security.

We are currently working to bring the ongoing major hydro developments on stream as quickly as possible. Moving up their commissioning dates will allow the new facilities to contribute sooner to the company's profitability. After completing construction of Toulnustouc generating station five months ahead of schedule in 2005, Hydro-Québec Production then commissioned the three generating units at Eastmain-1 powerhouse in December 2006, two months earlier than originally planned. In the same spirit, construction of the hydroelectric generating stations at Péribonka, Chute-Allard, Rapides-des-Cœurs and Mercier is making rapid progress.

At the end of the year, the federal and provincial authorities gave us the green light for the Eastmain-1-A/Sarcelle/Rupert project. On its own, this vitally important development will account for 8.5 TWh of the 15.8 TWh we plan to add to our hydroelectric output by 2014. The project's various components are slated to be commissioned in stages between late 2009 and winter 2012.

"In the coming years, we expect to post annual profits of approximately $2.5 billion, while making major investments—totaling nearly $20 billion between now and 2010—in projects to maintain, improve and develop our generating, transmission and distribution facilities."

As concerns wind power, which is being developed to complement hydroelectric generation, Hydro-Québec Distribution has already acquired an initial block of 1,000 MW, following a call for tenders, with deliveries set to begin between 2006 and 2012. A call for tenders is under way for a second block of 2 000 MW, with deliveries commencing between 2009 and 2013. Québec will consequently have 3,500 MW in installed wind capacity in 2014, plus the possibility of an additional 500 MW as anticipated in Québec's energy strategy for 2006–2015.

Bringing wind power onto the grid represents a major challenge. Hydro-Québec Production therefore provides a balancing service to offset fluctuations in wind output, as this intermittent energy source varies with the winds. In addition, Hydro-Québec TransÉnergie is making substantial investments to connect the wind farms to the province's grid and ensure its stability, taking into account the integration of a sizable quantity of installed wind capacity.

Energy savings and rate adjustments

This year, Hydro-Québec Distribution raised its energy conservation objective to 4.7 TWh by 2010 and set a target of 8 TWh by 2015. The programs and investments required to achieve this goal are subject to approval by the Régie de l'énergie (Québec Energy Board). The new energy efficiency plan will call for total investments of approximately $2 billion between now and 2010, more than half of which will be assumed by Hydro-Québec Distribution, the balance by its partners and customers.

The growth in domestic electricity demand also means that Hydro-Québec Distribution is facing additional supply costs and must increase its investments. On that basis, the Régie de l'énergie authorized the division to raise its rates by 1.9% effective April 1, 2007. Even with this increase, our rates remain among the lowest in North America.

Receptive financial markets

Borrowings totaled $3.4 billion in 2006, when we took advantage of the historically low long-term interest rates and the markets' great receptiveness to securities with maturities of over 30 years. As in recent years, all our issues of long-term debt were carried out on the Canadian market, which continues to offer the most attractive financing costs. Our 2007 borrowing program will provide $1.1 billion of the total $4.5 billion we plan to invest.

Looking ahead to 2010

In keeping with our Strategic Plan 2006–2010, we are concentrating all our efforts on developing Québec's energy resources by relying on energy efficiency, the complementary development of hydroelectricity and wind power, and technological innovation. Hydro-Québec is in sound financial health, and we are proud of the progress made in 2006.

Executive Vice President, Finance
and Chief Financial Officer

Daniel Garant

Hydro-Québec Is . . .

Hydro-Québec (the "Corporation") generates, transmits and distributes electricity. It is responsible for providing Quebecers with a secure supply of electricity. To meet growing demand, it is continuing to develop hydropower, with wind power added as a complementary source.

Hydro-Québec conducts energy-related research and develops new generation, transmission and distribution technologies. The company has actively promoted energy efficiency for a number of years by offering energy conservation programs for all customer categories.

Hydro-Québec's sole shareholder is the Québec government, which guarantees most of its borrowings (see page 35). As at December 31, 2006, its assets totaled $63.2 billion while its long-term debt amounted to $34.1 billion.

The Corporation comprises four divisions:

Hydro-Québec Production
- Generates electricity
- Supplies Hydro-Québec Distribution with an annual heritage pool of up to 165 TWh of electricity for the domestic market
- Sells electricity on wholesale markets both inside and outside Québec
- Carries out arbitrage and purchase/resale transactions on external markets

Hydro-Québec TransÉnergie
- Operates the most extensive transmission system in North America for the benefit of customers inside and outside Québec
- Transmits electricity and markets system capacity, while maintaining the necessary standard of reliability

Hydro-Québec Distribution
- Is responsible for supplying Quebecers with electricity and for ensuring a reliable distribution system
- Has access to an annual heritage pool of up to 165 TWh of electricity supplied by Hydro-Québec Production at a fixed price
- Beyond this pool, it issues calls for tenders on the open market
- Develops energy efficiency programs for all customer categories

Hydro-Québec Équipement and **Société d'énergie de la Baie James** (SEBJ, a subsidiary of Hydro-Québec)
- Prime contractors in construction projects for Hydro-Québec Production and Hydro-Québec TransÉnergie

Consolidated Financial Data and Operating Statistics

	2002	2003	2004	2005	2006
OPERATIONS (in millions of dollars)					
Revenue	11,852	10,197	10,341	10,888	**11,161**
Expenditure					
Operating	2,022	2,070	2,157	2,248	**2,394**
Electricity and fuel purchased	3,022	1,380	1,464	1,496	**1,315**
Depreciation and amortization	1,877	1,768	1,862	2,023	**2,007**
Taxes	537	567	606	594	**529**
Regulatory deferrals	–	–	–	(11)	**(93)**
Total	7,458	5,785	6,089	6,350	**6,152**
Operating income	4,394	4,412	4,252	4,538	**5,009**
Financial expenses	2,778	2,492	2,084	2,187	**2,212**
Income from continuing operations	1,616	1,920	2,168	2,351	**2,797**
Income (loss) from discontinued operations	(31)	18	267	(99)	**944**
Net income	1,585	1,938	2,435	2,252	**3,741**
BALANCE SHEET (in millions of dollars)					
Total assets	59,247	57,823	58,118	60,432	**63,248**
Long-term debt	36,754	34,402	32,567	31,279	**34,139**
Shareholder's equity	14,208	15,128	16,220	17,376	**18,840**
INVESTMENTS AFFECTING CASH (in millions of dollars)					
Property, plant and equipment and intangible assets	2,232	2,739	3,071	3,282	**3,348**
Other	24	(45)	(854)	117	**(1,879)**
Total investments	2,256	2,694	2,217	3,399	**1,469**
OPERATING STATISTICS					
Installed capacity[1] (in MW)	32,661	33,616	33,892	34,571	**35,315**
Peak power requirements[2] (in MW)	34,989	36,268	34,956	33,636	**36,251**
Total energy requirements[3] (in TWh)	192.9	194.8	193.0	200.2	**199.5**
Electricity sales in Québec (in TWh)	158.6	167.1	165.9	169.2	**167.3**
Electricity sales outside Québec (in TWh)	54.2	15.8	14.4	15.3	**14.5**
Total electricity sales (in TWh)	212.8	182.9	180.3	184.5	**181.8**
Number of employees	20,972	21,410	21,904	22,131	**22,587**
Number of customer accounts (in thousands)	3,597	3,644	3,701	3,753	**3,815**

Note: Certain comparative figures have been reclassified to reflect the presentation adopted for 2006.

1. Hydro-Québec also has access to almost all the output from Churchill Falls generating station (5,428 MW) and purchases all the output from six privately owned wind farms with a total installed capacity of 320 MW. In addition, 1,206 MW are available under agreements with other independent suppliers.
2. Total power demand at the annual domestic peak for the winter beginning in December, including interruptible power. The 2006–2007 winter peak for Québec occurred at 5:30 p.m. on February 5, 2007.
3. Total energy requirements consist of kilowatthours delivered within Québec and to neighboring systems.

Results by Operating Segment

$M	Generation	Transmission	Distribution	Construction	Corporate and Other Activities[1]	Inter-segment and Eliminations	Total
2006							
Revenue							
– External customers	1,594	32	9,488	–	48	(1)	**11,161**
– Intersegment	4,570	2,809	55	1,999	1,146	(10,579)	**–**
Amortization	760	535	570	7	144	(9)	**2,007**
Financial expenses	1,058	724	407	(1)	23	1	**2,212**
Income from continuing operations	2,114	632	42	2	–	7	**2,797**
Net income	2,114	632	42	2	944	7	**3,741**
Total assets	28,674	15,879	11,424	214	7,272	(215)	**63,248**
Investments in property, plant and equipment and intangible assets							
– affecting cash	1,615	882	690	4	157	–	**3,348**
– not affecting cash	273	14	16	–	–	–	**303**
2005							
Revenue							
– External customers	1,708	27	9,181	6	15	(49)	**10,888**
– Intersegment	4,532	2,467	55	2,053	1,074	(10,181)	**–**
Amortization	882	495	489	5	152	–	**2,023**
Financial expenses	1,050	691	384	–	61	1	**2,187**
Income (loss) from continuing operations	1,873	380	172	5	(71)	(8)	**2,351**
Net income (loss)	1,873	380	230	5	(228)	(8)	**2,252**
Total assets	27,482	15,553	10,556	242	6,831	(232)	**60,432**
Investments in property, plant and equipment and intangible assets							
– affecting cash	1,780	723	645	6	128	–	**3,282**
– not affecting cash	9	12	8	–	–	–	**29**

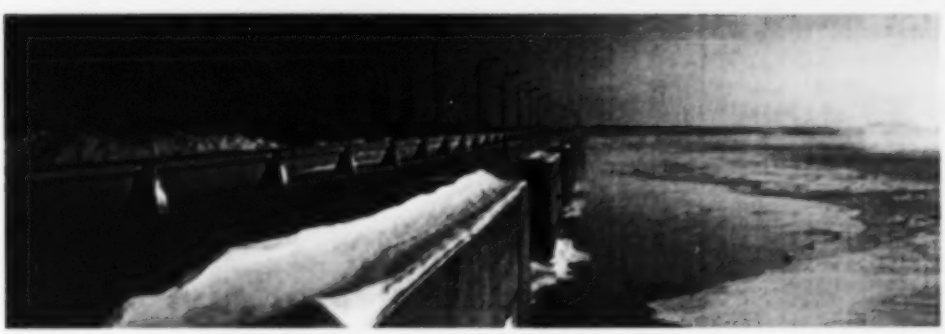
1. This heading includes the Technology Group, the Finance Group, the Human Resources and Shared Services Group, as well as Corporate Affairs and General Secretariat. The Shared Services Centre brings together services offered throughout the Corporation, including goods and services procurement, real estate management, materials and transportation service management, and information technology. Corporate and Other Activities also includes activities related to exporting Hydro-Québec's expertise abroad.

Eastmain-1 powerhouse has a total installed capacity of 480 MW.

Creating Value from International Assets

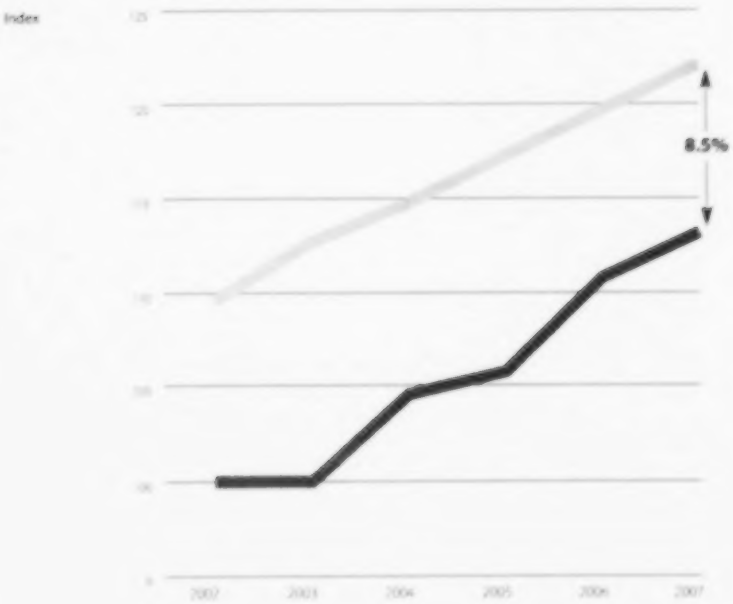
Segment	Holding	Country	Proceeds from sale ($C)	Gain (loss) on disposal
Generation Date sold: January 18, 2006	Hidroeléctrica Río Lajas S.A.	Costa Rica	$5 million	$(0.3) million
Transmission Date sold: February 27, 2006	Cross-Sound Cable Company LLC	United States	$182 million	$29 million
Transmission Date sold: March 29, 2006	MurrayLink HQI Australia Pty Ltd	Australia	$60 million	$(2) million
Transmission Date sold: June 30, 2006	HQI Transelec Chile S.A.	Chile	$1,800 million	$813 million
Generation Date sold: August 1, 2006	HQI Latin America Ltd (Fortuna generating station)	Panama	$113 million	$38 million
Transmission Date sold: December 12, 2006	Consorcio TransMantaro S.A.	Peru	$84 million	$39 million
Transmission Date sold: February 28, 2007	HQI Australia Pty Ltd (DirectLink)	Australia	$52 million	$18 million

As at February 28, 2007, all of Hydro-Québec's foreign interests held through Hydro-Québec International had been sold. In 2006, the sale of these assets yielded income from discontinued operations totaling $944 million. The $813-million gain generated by the sale of the company's stake in Transelec in Chile accounted for most of this total.



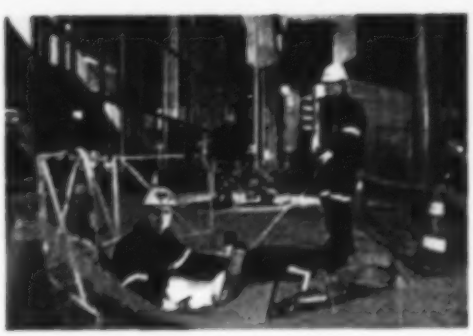
Intake at La Grande-2-A generating station.

Electricity Rates and CPI 2002–2007



In its decision rendered in February 2007, the Régie de l'énergie authorized Hydro-Québec Distribution to increase its rates by an average of 1.92% as of April 1, 2007.

						Forecast
Increase in Canadian consumer price index (CPI) Cumulative index (1998 = 100)	109.5	112.6	114.7	117.2	119.6	122.0
Hydro-Québec rates Cumulative index (1998 = 100)	100.0	100.0	104.5	105.7	111.3	113.5



Maintenance work on Hydro-Québec Distribution's underground grid.

Some of Hydro-Québec TransÉnergie's automation and remote access equipment.

Comparative Index of Electricity Prices in 2006

Residential Customer Accounts at April 1, 2006 (Montréal = 100)
Monthly bill for a consumption of 1,000 kWh (taxes excluded)

Winnipeg	95
Vancouver	97
Montréal	100
Seattle	124
Chicago	139
Edmonton	155
France*	162
Toronto	169
Spain*	171
Germany*	194
United Kingdom*	241
Japan*	261
New York	291
San Francisco	320
Boston	361

Industrial Customer Accounts at April 1, 2006 (Montréal = 100)
Monthly bill (taxes excluded) for a demand of 10 MW, a consumption of 5,760 MWh and a load factor of 80%

Winnipeg	73
Vancouver*	82
Montréal	100
Seattle	141
Edmonton	143
Chicago	162
Spain*	178
Toronto	195
San Francisco	224
Germany*	235
Italy*	269
United Kingdom*	284
Boston	310
New York	319

* At January 1, 2006

Sources: Hydro-Québec, *Comparison of Electricity Prices in Major North American Cities, April 1, 2006* and EURELECTRIC, *Electricity Tariffs as of 1 January 2006* (Published Tariffs).

Hydro-Québec TransÉnergie line worker.

With 32,826 km of lines, Hydro-Québec TransÉnergie operates the most extensive transmission system in North America.

North American Electricity Prices

Average Price of Electricity by State (2005) and Province (2004)

Overall average in US¢/kWh

Source: Energy Information Administration, *Electric Power Annual – 2005*, November 2006
Source: Statistics Canada, *Electric Power Generation, Transmission and Distribution – 2004* (57-202-XIB), March 2006

Highest and lowest rate zones

- >9.0 US¢/kWh: Northeast States, California, Nevada and Texas
- <4.5 US¢/kWh: Mostly hydroelectric regions

Energy sources for power generation in the United States (2005)

50%	2,073 TWh	Coal
19%	782 TWh	Nuclear
19%	758 TWh	Natural gas
7%	270 TWh	Hydroelectric
3%	123 TWh	Oil
3%	109 TWh	Other

Energy sources for power generation in Canada (2004)

58%	337 TWh	Hydroelectric
17%	100 TWh	Coal
15%	85 TWh	Nuclear
6%	33 TWh	Natural gas
2%	14 TWh	Oil
1%	8 TWh	Other

Comparison of Electric Utilities in North America

Financial data and operating statistics[1]

(Comparison in dollars of origin)

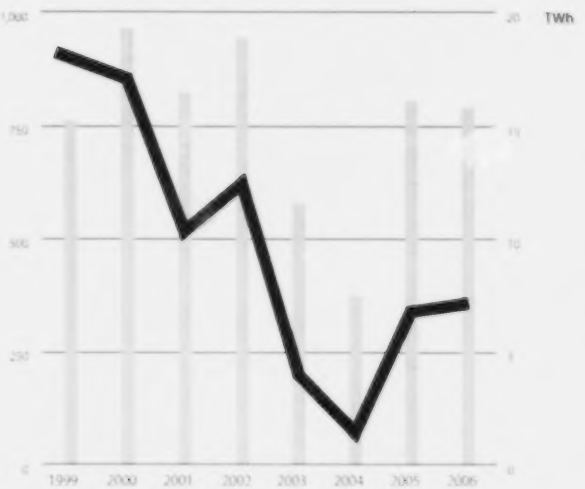
		Canadian			American	
For the year ended	**Hydro-Québec** Dec. 31, 2005 C$	British Columbia Hydro March 31, 2006 C$	Manitoba Hydro March 31, 2006 C$	Ontario Power Generation Dec. 31, 2005 C$	New York Power Authority Dec. 31, 2005 US$	Tennessee Valley Authority Sept. 30, 2005 US$
Ownership	Government of Québec	Government of British Columbia	Government of Manitoba	Government of Ontario	Government of the State of New York	Government of the United States
Structure	Integrated	Integrated	Integrated	Generation	Generation/ Transmission	Generation/ Transmission
Operating statistics						
Sales (TWh)	**184.5**	88.99	33.7	not available	41.2	171.5
• Domestic	**169.2**	52.44	19.9	not available	not available	not applicable
• Export	**15.3**	36.55	13.8	not available	not available	not applicable
Installed capacity (MW)	**34,571**	11,313	5,469	22,173	6,232	33,981
Output (TWh)	**158.6**[2]	47.2	37.6	108.5	24.6	159.9
• Hydroelectric (%)	**97.0**	99.2	98.9	30.0	82.9	9.8
• Nuclear (%)	**3.0**	0.0	0.0	41.5	0.0	28.2
• Thermal (%)	**0.0**	0.8	1.1	28.5	17.1	61.9
• Other (%)	**0.0**	0.0	0.0	0.0	0.0	0.0
Customer accounts (thousands)	**3,753**	1,705	768	not applicable	not applicable	not applicable
Total workforce	**22,131**	4,203	5,563	11,300	1,600	12,703
Average rate increase (%)	**1.20**	0.0	2.25	not applicable	not applicable	0.0
Financial data (in millions of dollars)						
Revenue	**10,888**	4,311	2,399	5,798	2,506	7,794
Operating income	**4,538**	460	918	1,020	76	1,291
Net income	**2,252**	266[3]	415	366	58	85
Investments[4]	**3,282**	607	498	763	244	1,339
Fixed assets	**50,373**	9,530	7,408	11,412	3,333	23,888
Total assets	**60,432**	12,704	10,482	21,623	6,389	34,473
Long-term debt	**31,279**	6,694	7,051	3,089	1,941	17,751
Shareholder's equity	**17,376**	1,707	1,285	5,387	1,896	2,392

1. Certain statistics have been adjusted to provide a standard basis for comparison.
2. The Hydro-Québec figure does not include the output from Lac-Robertson generating station (21 MW) or diesel power plants (124 MW), which are operated by Hydro-Québec Distribution.
3. Net income for BC Hydro includes deferred accounts totaling $(241) million.
4. Property, plant and equipment and intangible assets.

Market Development

- Hydro-Québec Production supplies Hydro-Québec Distribution with a heritage pool of up to 165 TWh of electricity per year at an average price of 2.79¢/kWh.
- Above this annual volume, Hydro-Québec Production competes freely in selling its available output inside and outside Québec, in response to calls for tenders or on short-term markets.
- The flexibility of our fleet of generating stations, 97% of which are hydroelectric, allows us to import electricity when demand is weak and prices are low—for example, at night—and to export when demand is strong and prices are higher.
- Since 1999, Hydro-Québec Production has conducted brokerage and purchase/resale transactions on energy markets in Eastern Canada and the U.S. Northeast, specifically Ontario, New Brunswick, the New England states and the states of New York, Pennsylvania, New Jersey and Maryland.
- The commissioning of the hydroelectric facilities currently under construction or study will allow the division to increase its operating flexibility and take advantage of business opportunities that arise on markets outside Québec.
- As at December 31, 2006, the volume of water in our reservoirs amounted to 114.3 TWh, compared with 105.3 TWh at the end of the previous year.

Net Electricity Exports



	1999	2000	2001	2002	2003	2004	2005	2006
Net reservoir drawdown (in TWh)	18.5	17.3	10.6	12.6	4.0	1.5	6.7	7.0
Net contribution (including revenue from energy-related derivative instruments) (in $million)	783	993	847	971	596	384	830	814

Québec Regulatory Environment

Electricity transmission and distribution are regulated by the Régie de l'énergie (the "Régie") on the basis of cost of service. Generation does not come under the Régie's jurisdiction. However, under related legislation, Hydro-Québec Production is required to supply Hydro-Québec Distribution with a heritage pool of 165 TWh at an average price of 2.79¢/kWh.

Régie de l'énergie decisions

Hydro-Québec TransÉnergie
In February 2007, the Régie de l'énergie approved a transmission rate adjustment retroactive to January 1, 2007.

The estimated rate of return on equity for 2007 is approximately 7.50%. The Régie de l'énergie's final decision on this rate is expected during the first quarter of 2007.

Hydro-Québec Distribution
In February 2007, the Régie authorized an average increase of 1.92% in Hydro-Québec Distribution's rates effective April 1, 2007.

A return on equity of 7.57% was approved for 2007.

Effects of Rate Regulation on the Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and reflect the decisions of the Régie de l'énergie. These decisions affect the timing of the recognition of certain transactions in the consolidated operations, resulting in the recognition of regulatory assets and liabilities, which the Corporation considers it is likely to recover or settle subsequently through the rate-setting process. The following table presents the net carrying amounts of these assets and liabilities as at December 31.

Regulatory assets (liabilities)
(in millions of dollars)

	Expected years of amortization	2005	2006
Annual cost variance in native load transmission service	Conditions to be determined by the Régie	–	**355**
Net costs related to retirement of property, plant and equipment and intangible assets	2007–2016	258	**241**
Costs related to the Energy Efficiency Plan	2007–2016	131	**252**
Costs committed until the rescission of dual-energy Rate BT	2007–2011	76	**125**
Costs related to a major discontinued project	2007	20	**10**
Cost variance related to 2005 electricity purchases in excess of the heritage pool	2007	13	**30**
Costs related to the de-icer project at Lévis substation	2007–2047	1	**12**
		499	**1 025**
Cost variance related to 2006 electricity purchases in excess of heritage pool	Conditions to be determined by the Régie	– –	**(251)** **(11)**
		–	**(262)**
		499	**763**

These costs and cost variances are generally charged to separate accounts and, where the conditions are determined by the Régie, are amortized over one or more years according to the method specific to each cost category. If transmission and distribution operations in Québec were not regulated, the actual costs would be recognized in the year's results and net income would be reduced by $264 million for 2006 ($188 million for 2005).

The risk and uncertainty related to regulatory assets and liabilities are subject to periodic monitoring and assessment. When the Corporation considers that the net carrying value of a regulatory asset or liability is no longer likely to be reflected in future rate setting, this value is charged to operations for the year in which this judgment is made.

Electricity Supply Plan 2005–2014 – Progress Report

Hydro-Québec Distribution files an Electricity Supply Plan with the Régie de l'énergie every three years. This plan describes the strategy and objectives the Distributor intends to implement to ensure a secure power supply for Quebecers.

The Distributor is also required to report on progress made on the plan no later than November 1 of the first and second years after it is filed. This document presents the results achieved and discusses the adequacy of supply based on the criteria set out in the plan. In addition, it presents an updated load forecast. The second progress report on the Electricity Supply Plan 2005–2014 was filed in October 2006.

Highlights

- Since the Electricity Supply Plan 2002–2011 was filed, the Distributor has signed 13 long-term supply contracts, for an installed capacity of over 2,100 MW. All these contracts were awarded following calls for tenders.
- In addition to the latest long-term tender call for 2,000 MW of wind power now in progress, the Distributor will issue a call for tenders for 500 MW of wind power once an order-in-Council to this effect has been adopted by the Québec government.
- In 2006, the Régie de l'énergie approved specific peak-period rate options, namely the interruptible-power option and an option allowing customers to make use of backup generators.
- The Distributor does face periods when supplies exceed demand. To restore the energy balance at such times, the Distributor takes advantage of the flexibility its supply portfolio affords.
- The domestic sales forecast between now and 2014 has been revised downward from that presented in the 2005 Progress Report. It now stands at 182.4 TWh, taking into account the new energy conservation target of 7.1 TWh in the Energy Efficiency Plan. Between 2004 and 2014, sales are expected to grow by 17.8 TWh, at an average rate of 1.0%, or approximately 1.8 TWh, per year.
- Of the forecast growth, most—55%—will be in the industrial sector, mainly because of the resumption of operations at the ABI aluminum smelter, which was affected by a strike in 2004, and the expansion of the Alouette aluminum smelter in Sept-Îles. That expansion project alone accounts for about 4.3 TWh of the forecast growth.
- A total of 41,326 MW of capacity will be required in 2013–2014, including the reserve needed to meet fluctuations in demand and comply with Northeast Power Coordinating Council (NPCC) reliability standards.
- The Distributor plans to facilitate distributed power generation based on renewables, particularly wind and solar power. Under the approved program, customers can generate electricity for their own needs and feed any surpluses into the Hydro-Québec Distribution system. These surpluses will then be returned to them during periods when their consumption exceeds their output.

The distribution system covers more than 108,000 km.

Strategic Plan 2006–2010

In its Strategic Plan 2006–2010, Hydro-Québec has reiterated its commitment to sustainable development by relying on energy efficiency, the complementary development of hydroelectricity and wind power, and technological innovation.

Energy efficiency
- Objective of 4.7 TWh in energy savings by 2010
- Target of 8 TWh by 2015

Complementary development of hydroelectricity and wind power
- Acceleration of major hydroelectric projects
- Creation of a portfolio of hydroelectric projects totaling 4,500 MW
- Integration of 4,000 MW of wind power by 2015, supported and facilitated by hydroelectric development

Technological innovation
- Integration of new technologies into Hydro-Québec's facilities, enabling the company to remain at the cutting edge of its businesses, further improve its customer service and become even more efficient

Business objectives

Hydro-Québec Production
- Increase hydroelectric generating capacity by accelerating project development
- Facilitate wind power integration
- Ensure the efficiency and reliability of the generating fleet

Hydro-Québec TransÉnergie
- Ensure the reliability of the transmission system
- Become a world benchmark for quality and reliability in wind power integration

Hydro-Québec Distribution
- Promote more efficient use of electricity
- Increase customer satisfaction
- Meet electricity needs by favoring renewable energy sources

Financial Outlook for 2010

(in millions of dollars)

Financial Results[1]	2007[2]	2008	2009	2010
Net income	2,545	2,500	2,500	2,500
after water-power royalties of	265	545	563	596
Dividends declared	1,272	1,250	1,250	1,250
Shareholder's equity[3]	20,113	21,363	22,613	23,863
Capital investments	4,484	3,816	3,994	3,745
Rate increases projected for April 1	**2.8%**	**3.5%**	**2.5%**	**0.1%**

1. Based on economic parameters published in the Strategic Plan 2006–2010 (www.hydroquebec.com/publications/en).
2. According to Hydro-Québec's 2007 Business Plan.
3. Shareholder's equity has been adjusted to take into account the balance at December 31, 2006.

ENERGY WISE

Energy Efficiency Plan
Hydro-Québec will invest more than $1 billion in its Energy Efficiency Plan between now and 2010. In 2006, energy savings totaled 643 GWh.

Hydro-Québec and Sustainable Development

Hydro-Québec has demonstrated its environmental commitment for over three decades. Its vision of sustainable development is in keeping with the definition proposed by the Brundtland Commission in 1987 and incorporated into Québec's Sustainable Development Act passed in 2006: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

With this in mind, Hydro-Québec has established a governance policy and various other management tools, such as:

- codes of conduct for its directors, executives and employees,
- a Board committee charged with monitoring and guiding the company's environmental activities,
- ISO 14001-certified environmental management systems,
- a variety of ways to consult with governments, municipal authorities and Aboriginal communities,
- processes for measuring public perception and satisfaction with respect to Hydro-Québec's sustainable development performance.

Hydro-Québec also takes part in a large number of initiatives that establish good corporate practices in terms of sustainable development and social responsibility, both in Canada and abroad:

- The company's annual Sustainability Report is based on the third generation of Global Reporting Initiative (GRI) guidelines. The GRI is an independent organization that compares organizations' sustainable development performance with a view to ensuring transparency. More than 1,000 companies worldwide publish reports in accordance with these criteria, which are similar to the Dow Jones Sustainability Indexes (DJSI).
- Like nearly 3,000 other companies in 100 countries, Hydro-Québec adheres to the United Nations Global Compact, which consists of 10 principles covering environmental protection, respect for human rights and labor standards.
- Hydro-Québec applies best governance practices; for example by voluntarily adopting certain principles of the Sarbanes-Oxley Act passed by the U.S. Congress in 2002.
- As a member of the International Hydropower Association and the Canadian Hydropower Association, Hydro-Québec is actively involved in developing and promoting the role hydroelectricity can play in sustainable development.

Concrete results

Greenhouses gases and climate change
Hydro-Québec uses water to produce 97% of its output. This generating option minimizes greenhouse gas (GHG) emissions and contributes directly to Québec's positive GHG performance. It could also open up attractive opportunities for the company in a future Canadian carbon market.

Human capital
Hydro-Québec has a workforce of more than 22,000. A number of programs are designed to ensure employee motivation, maintain high-level expertise and provide a skilled, energetic next generation of employees. Since 2001, the company has had a corporate succession support plan to help prepare for a major wave of retirements between now and 2012.

Economy and society
Hydro-Québec plays a strong role in Québec's economic and social vitality. The Eastmain-1-A/Sarcelle/Rupert hydroelectric project, for example, will generate estimated economic spinoffs of over $2 billion between 2006 and 2010, and create jobs equivalent to about 27,000 person-years.

The company also strives to optimize the integration of its projects and operations into their host environments. It has therefore established permanent consultation structures with municipal organizations and reaches agreements with the communities concerned, in keeping with their needs.

Portfolio of Hydro-Québec Production Projects

PROJECTS UNDER CONSTRUCTION

Generating stations and developments	Commissioning	Construction	Capacity	Output	Investment
Mercier generating station Region: Outaouais Carried out by: Hydro-Québec Équipement	2007	2002–2007	51 MW	0.3 TWh	$176 million
Péribonka hydroelectric development Region: Saguenay–Lac-Saint-Jean Carried out by: Hydro-Québec Équipement	2007–2008	2004–2008	385 MW	2.2 TWh	$1.4 billion
Chute-Allard and Rapides-des-Cœurs hydroelectric developments Region: Mauricie Carried out by: Hydro-Québec Équipement	2008	2005–2008	139 MW	0.9 TWh	$0.7 billion
Eastmain-1-A and Sarcelle powerhouses and Rupert diversion Region: Northern Québec Carried out by: Société d'énergie de la Baie James	2009–2012	2007–2012	893 MW	8.5 TWh	$5.0 billion[1]
PROJECTS UNDER STUDY					
Romaine Complex Region: Minganie	2014 and beyond		1,550 MW	7.7 TWh	$6.5 billion

1. Excluding agreements with local and Aboriginal communities.

The new Rapides-des-Cœurs development will have a total installed capacity of 76.5 MW.

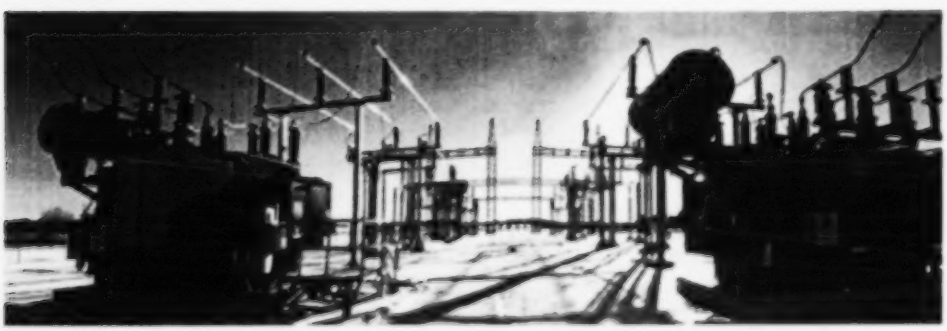
Eastmain-1 powerhouse was commissioned in December 2006, two months ahead of schedule.

Portfolio of Hydro-Québec TransÉnergie Projects[1]

PROJECTS UNDER CONSTRUCTION

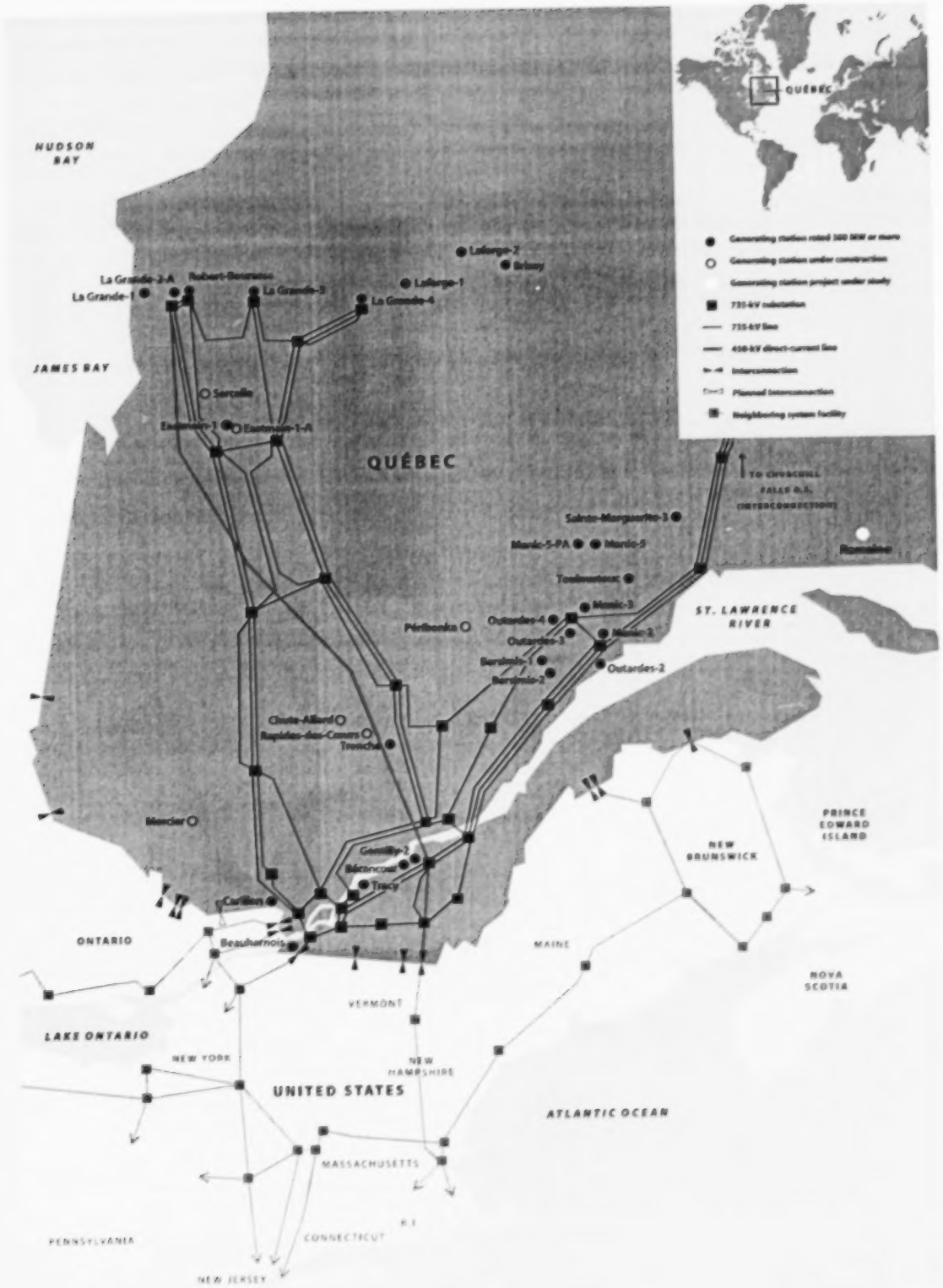
Connections, integration into the transmission system and new substations	Commissioning	Investment
Connection of Chute-Allard and Rapides-des-Coeurs hydroelectric developments	2008	$105 million
Connection of Péribonka hydroelectric development	2008	$185 million
Saraguay substation	2008	$39 million
New 1,250-MW interconnection with Ontario (substation)	2009	$440 million
PROJECTS UNDER APPROVAL		
Saint-Maxime substation – Refurbishment and increase in transformer capacity	2007–2010	$42 million
Integration of the output of wind farms following Hydro-Québec Distribution's first call for tenders	2007–2012	$533 million
Wemindji substation	2008	$46 million
Saint-Lin substation (new substation)	2008	$47 million
Vaudreuil-Soulanges substation (new substation)	2009	$30 million
Hauterive substation – Refurbishment and increase in transformer capacity	2009	$79 million
New 1,250-MW interconnection with Ontario (line)	2010	$236 million
Sorel substation – Refurbishment	2010	$52 million
Connection of Eastmain-1-A and Sarcelle powerhouses	2011	$176 million
PROJECTS UNDER STUDY		
Mont-Tremblant substation (new substation)	2009	
Bourassa II substation (new substation)	2009	
Anne-Hébert substation (new substation)	2010–2011	
Integration of the output of wind farms (2,000 MW) following Hydro-Québec Distribution's second call for tenders	2010–2015	
Connection of Romaine complex	2016–2020	

1. The cost of any telecommunications projects required is not included in Hydro-Québec TransÉnergie's investments.



Hydro-Québec TransÉnergie's system includes 508 transformer substations.

System Map


HUDSON BAY
JAMES BAY
QUÉBEC
QUÉBEC
LAKE ONTARIO
ONTARIO
NEW YORK
VERMONT
NEW HAMPSHIRE
MAINE
UNITED STATES
MASSACHUSETTS
R.I.
CONNECTICUT
PENNSYLVANIA
NEW JERSEY
ATLANTIC OCEAN
NEW BRUNSWICK
PRINCE EDWARD ISLAND
NOVA SCOTIA
ST. LAWRENCE RIVER
La Grande-2-A
La Grande-1
Robert-Bourassa
La Grande-3
La Grande-4
Laforge-2
Brisay
Laforge-1
Sarcelle
Eastmain-1
Eastmain-1-A
Sainte-Marguerite-3
Manic-5-PA
Manic-5
Toulnustouc
Manic-3
Manic-2
Outardes-4
Outardes-3
Outardes-2
Péribonka
Bersimis-1
Bersimis-2
Chute-Allard
Rapides-des-Cœurs
Tremblay
Mercier
Gentilly-2
Bécancour
Tracy
Carillon
Beauharnois
TO CHURCHILL FALLS (LABRADOR) POWER INTERCONNECTION
Generating stations rated 300 MW or more
Generating stations under construction
Generating station project under study
735-kV substation
735-kV line
450-kV direct-current line
Interconnection
Planned interconnection
Neighbouring system facility

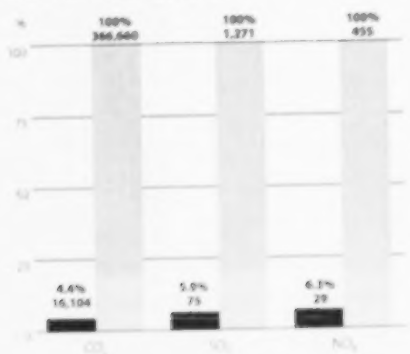
Generating Facilities 2006

	Commissioning date	Capacity (in megawatts)
Hydroelectric generating stations[1]		
Robert-Bourassa	1979–1981	5,616
La Grande-4	1984–1986	2,779
La Grande-3	1982–1984	2,417
La Grande-2-A	1991–1992	2,106
Beauharnois	1932 and 1961	1,673
Manic-5	1970–1971	1,528
La Grande-1	1994–1995	1,436
Manic-3	1975–1976	1,244
Bersimis-1	1956–1959	1,125
Manic-5-PA	1989–1990	1,064
Manic-2	1965–1967	1,041
Other (44 plants under 1,000 MW, including Lac-Robertson owned by Hydro-Québec Distribution)	1910–2006	10,944
		32,973
Nuclear generating station		
Gentilly-2 (nuclear)	1983	675
Thermal generating stations (conventional)		
Tracy (oil-fired)	1964–1968	660
Bécancour, La Citière and Cadillac (gas-turbine)	1976–1993	881
Other (24 diesel units)[2]	1946–2001	124
		2,340
Wind farm		
Saint-Ulric (3 wind turbines)	2001	**2**
Total installed capacity		**35,315**
Other sources of supply		
Churchill Falls generating station — Churchill Falls (Labrador) Corporation Limited[3]		5,428
Six privately owned wind farms[4]		320
Agreements with other independent power producers[5]		1,206

1. The installed capacity shown for the generating stations reflects winter turbine operating conditions (water temperature at 5°C).
2. Owned and operated by Hydro-Québec Distribution.
3. Hydro-Québec has access to almost all the output.
4. Hydro-Québec purchases all the output.
5. Hydro-Québec has access to this output.

Comparison of Hydro-Québec's Air Emissions against the Regional Average[1]

(Emission factors : metric tons/TWh)



1. Regional average for electric utilities in the six New England states, the State of New York (2004), Ontario (2005) and New Brunswick (2004–2005).

Information sources: *Emissions & Generation Resource Integrated Database (e-GRID2006), version 1.0, January 2006*, U.S. EPA; *Towards Sustainable Development 2005 Progress Report*, Ontario Power Generation; *New Brunswick Power Corporation 2004–2005 Annual Report*; *New Brunswick Power Corporation Environmental Performance Report 2005*.

Risk Management

Hydro-Québec uses an integrated approach to risk management. The company's major units have to identify and assess their principal risks, then develop mitigation measures. These risks are consolidated into a portfolio presented to the Board of Directors.

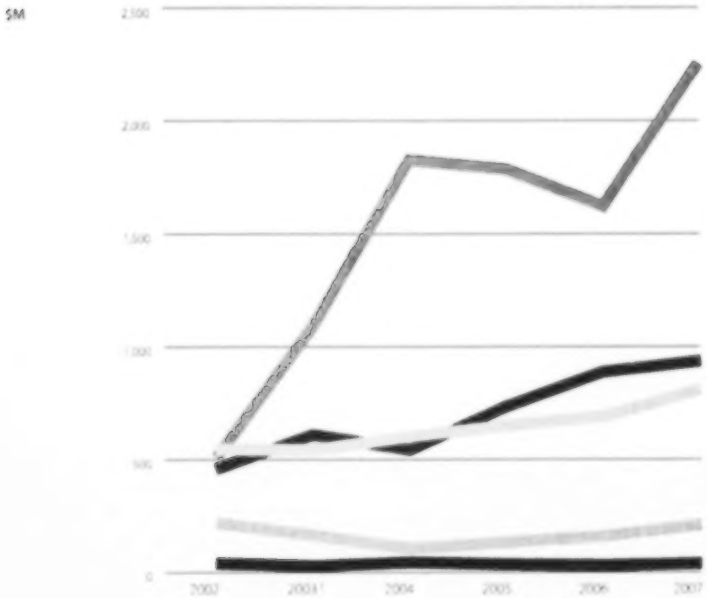
The following is an overview of Hydro-Québec's main enterprise risks and the mitigation measures planned for each one.

Risk	Overview of Mitigation Measures
Financial risks	
Volatility of interest rates, exchange rates and aluminum prices	• Short term: active integrated management to limit impacts on the company's results • Medium and long term: mitigation through certain compensatory factors such as debts in U.S. dollars, as a hedge against sales in this currency
Generation	
Runoff	• Maintaining of ability to offset a runoff deficit of 64 TWh over two consecutive years and 98 TWh over four consecutive years • Multiyear management of energy reserves • Maintaining of an adequate margin between generating capacity and commitments
Credit and market risks related to energy trading on wholesale markets	• Quantification of risks, application of controls, presentation of daily reports to Corporate Management and compliance with limits approved by Management and the Board of Directors • Ongoing monitoring of market positions and use of derivative hedging instruments
Transmission	
Continuity of transmission service	• Application of NERC[1] and NPCC[2] reliability criteria • Establishment of measures to maintain and strengthen facilities on the system and extend their service life
Availability of sufficient wheeling capacity and integration of new generating stations and energy sources, including wind farms	• Integrated planning of transmission operations and construction projects • Optimized integration of wind power without compromising system stability and reliability
Distribution	
Weather conditions and growth in electricity demand	• Negotiation of flexibility clauses with suppliers • Refinement of forecasting method for short-term needs • Use of peak management tools • Continued energy efficiency efforts with a view to limiting demand growth
Continuity of distribution service	• Integrated intervention strategy for asset renewal, distribution system maintenance and vegetation control
Construction	
Upward pressure on costs of Hydro-Québec projects	• Development of strategies to mitigate the impacts of the current economic situation on building supplies and project execution • Review of project management to optimize execution
Corporate and other activities	
Respect and preservation of the environment	• Adoption of an ISO 14001–certified environmental management system • Annual review of management of environmental issues and integration of environmental concerns into all the company's activities
Information security	• Evaluation of information system defences against intrusions • Establishment of antivirus expertise centre, rollout of filtering devices, monitoring of systems, access and identity management • Implementation of an incident and vulnerability management plan

1. North American Electric Reliability Corporation.
2. Northeast Power Coordinating Council.

Investments in Property, Plant and Equipment and Intangible Assets 2002–2007

(affecting cash)



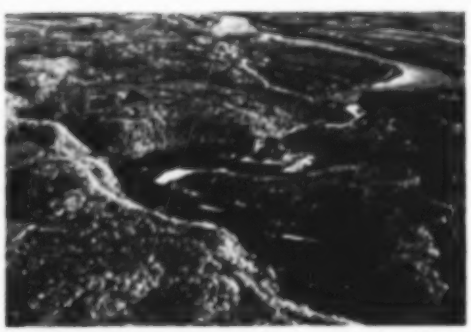
Hydro-Québec plans to invest more than $4 billion in 2007. It will devote more than 60% of this amount to development and growth activities.

						Forecast
Generation	1,018	1,428	1,820	1,780	1,615	2,251
Distribution	540	540	601	645	690	805
Transmission	452	609	541	722	882	931
Corporate and Other Activities[2]	213	158	98	129	157	208
Construction	9	4	11	6	4	9
Total	**2,232**	**2,739**	**3,071**	**3,282**	**3,348**	**4,204**

1. Includes $4 million in intersegment eliminations.

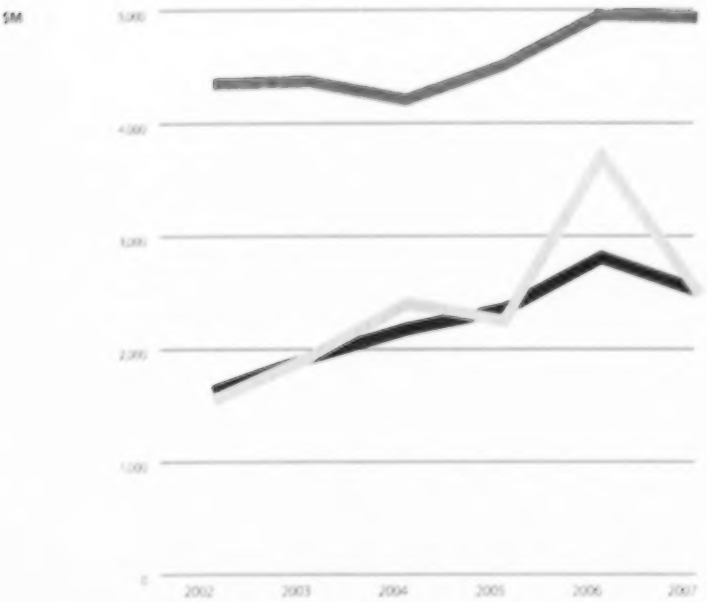
2. This heading includes the Technology Group, the Finance Group, the Human Resources and Shared Services Group, as well as Corporate Affairs and General Secretariat. The Shared Services Centre brings together services offered throughout the Corporation, including goods and services procurement, real estate management, materials and transportation service management, and information technology.

Workers on the job inside Eastmain-1 powerhouse.



Draft-design studies on the Romaine complex began in July 2004.

Income 2002–2007



In 2007, Hydro-Québec expects income from continuing operations to reach approximately $2.5 billion, in line with the outlook presented in the Strategic Plan 2006–2010. This forecast takes into account the gradual introduction of water-power royalties to be paid by Hydro-Québec Production beginning in 2007.

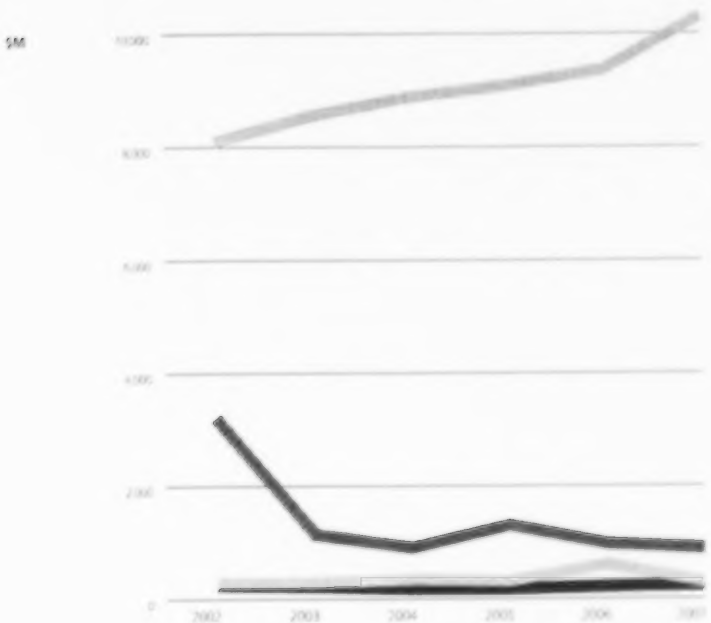
						Forecast
Operating income	4,394	4,412	4,252	4,538	5,009	4,971
Income from continuing operations	1,616	1,920	2,168	2,351	2,797	2,500
Net income	1,585	1,938	2,435	2,252	3,741	2,545

Economic and Financial Parameters

	2006	Forecast 2007
Rate of growth of Québec's real gross domestic product (in %)	1.6[1]	1.7
Rate of growth in volume of Hydro-Québec's electricity sales in Québec (in %)	-1.1	2.6[2]
Rise in consumer price index in Canada (in %)	2.0	2.0
Rate increases projected for April 1 (in %)	5.3	1.9[3]
Canadian dollar exchange rate in U.S. dollars	0.882	0.870

1. Estimated from November results published by the Institut de la statistique du Québec.
2. According to Hydro-Québec's 2007 Business Plan.
3. Approved by the Régie de l'énergie on February 27, 2007. The forecasts presented in Hydro-Québec's 2007 Business Plan are based on Hydro-Québec Distribution's initial rate application, which came to 2.8%.

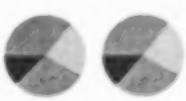
Revenue 2002–2007



Sales in 2006 were up 2.5% from 2005. This increase is largely attributable to the recognition, through hedge accounting, of a foreign exchange gain of $234 million on debts and swaps in U.S. dollars. This amount is shown with other operating revenue. Moreover, revenue from Québec sales grew due to increased baseload demand and to rate adjustments.

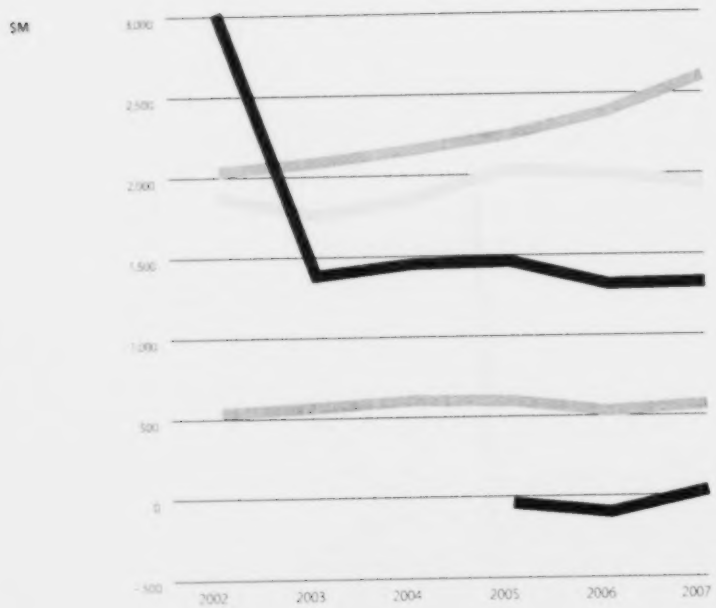
						Forecast
Electricity sales in Québec	8,112	8,578	8,922	9,121	9,402	10,308
Electricity sales outside Québec (short-term)	3,233	1,138	905	1,290	951	880
Electricity sales outside Québec (long-term)	233	207	179	174	198	225
Other revenue	274	274	335	303	610	265
Total	**11,852**	**10,197**	**10,341**	**10,888**	**11,161**	**11,678**

Breakdown of electricity sales revenue by customer category



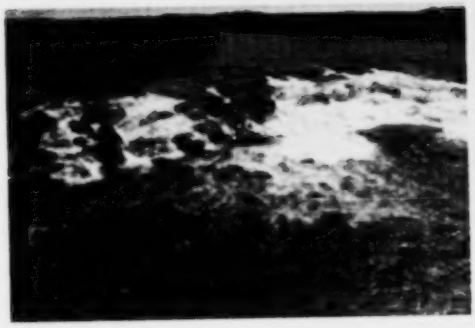
	2006	2007
Residential and farm	35.8%	36.2%
General and institutional	22.3%	22.2%
Industrial	28.6%	29.5%
Other, including sales outside Québec	13.2%	12.1%

Expenditure 2002–2007



Since January 1, 2007, Hydro-Québec Production has been required to pay water-power royalties destined to the Generations Fund. The amount of $265 million forecast for 2007 represents half the rate applicable as of 2008.

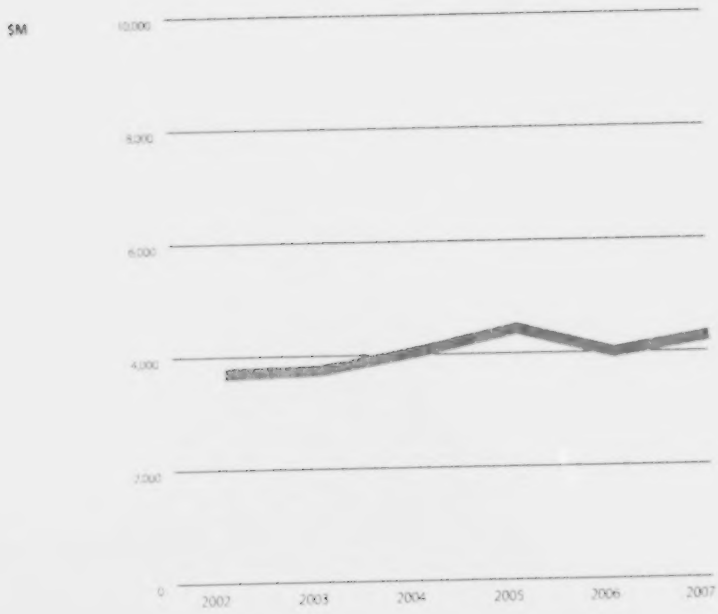
						Forecast
Operations	2,022	2,070	2,157	2,248	2,394	2,610
Electricity and fuel purchased	3,022	1,380	1,464	1,496	1,315	1,319
Regulatory deferrals	–	–	–	(11)	(93)	11
Depreciation and amortization	1,877	1,768	1,862	2,023	2,007	1,940
Taxes	537	567	606	594	529	562
Water-power royalties						265
Total	**7,458**	**5,785**	**6,089**	**6,350**	**6,152**	**6,707**



Construction of the Romaine complex could get under way in 2009.

TransÉnergie cableman at work on the Péribonka site.

Funds from Operations 2002–2007

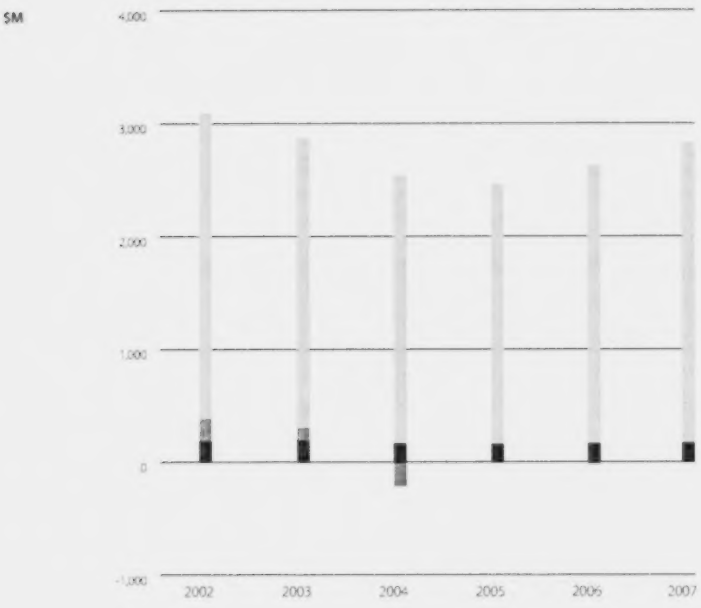


Funds from operations, added to the annual borrowing program, enable us to finance our investments at a time when we are developing major construction projects, and to pay dividends to our shareholder.

						Forecast
Funds from operations	3,682	3,700	4,017	4,401	4,006	4,233

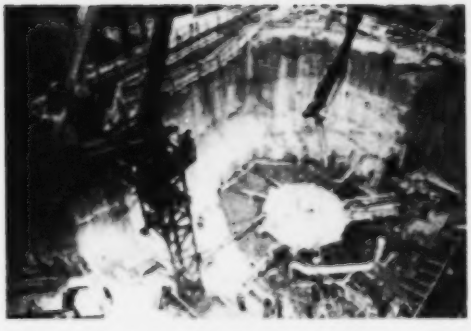
Daniel-Johnson dam: testimony to Québec's engineering know-how.

Financial Expenses 2002–2007



Historically, all foreign exchange gains and losses were presented as part of the Exchange (gain) loss item under Financial expenses. In 2006, Hydro-Québec adopted an accounting presentation in which the effect of hedging sales in U.S. dollars with debt and swaps was reclassified as part of Revenue. Consequently, this hedge is no longer shown under Financial expenses.

						Forecast
Interest	2,711	2,563	2,382	2,305	2,466	2,658
Exchange (gain) loss	203	117	(218)	(1)	(21)	0
Loan guarantee fees	185	184	161	155	158	168
Less						
Capitalized financial expenses	299	347	226	249	312	318
Net investment income	22	25	15	23	79	37
Total	**2,778**	**2,492**	**2,084**	**2,187**	**2,212**	**2,471**

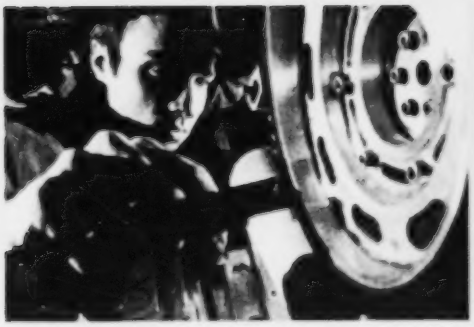


Péribonka powerhouse, built underground, will have a total installed capacity of 385 MW.

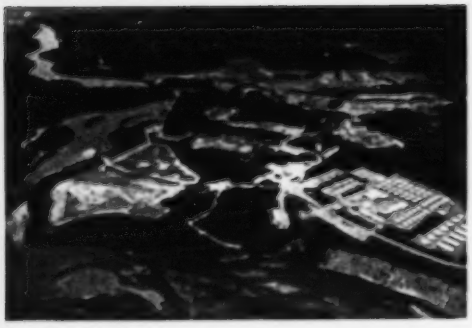
When construction winds down in 2008, the Péribonka workcamp will be transported to another jobsite, and the area will be reforested.

Financing Objectives and Strategies

FINANCING AND DEBT MANAGEMENT	Objectives	Strategies
	1. Maintain the presence and impact of Hydro-Québec in the capital markets	• Plan bond issuance in order to establish liquid benchmarks • Stagger debt maturities in order to maintain the annual financing program at a stable level • Focus on strategically important capital markets, in particular the Canadian bond market
	2. Diversify Hydro-Québec's funding sources while minimizing foreign exchange risk	• Maintain access to foreign capital markets, particularly the U.S. dollar • Use swaps to hedge foreign financing in currencies other than the U.S. dollar • Secure financing in the lowest-cost market
	3. Manage Hydro-Québec's debt effectively	• Redeem debt prior to maturity whenever possible, if such operations allow Hydro-Québec to reduce the cost of its debt



High-tech devices for working in difficult environments are just some of the tools developed by our research institute.



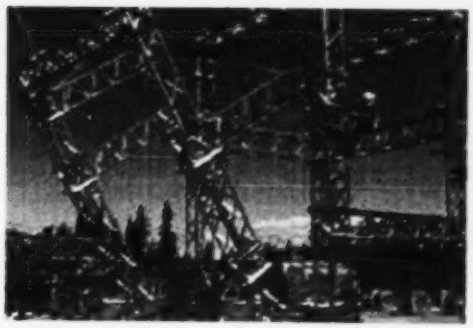
Construction site at the Péribonka hydroelectric development.

Principal Financial Ratios

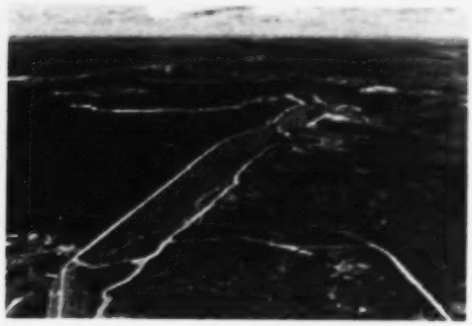
	2002	2003	2004	2005	2006	Forecast 2007
FINANCIAL RATIOS						
Coverage ratios						
Interest coverage[1]	1.63	1.73	1.79	2.00	2.06	**1.88**
EBITDA interest coverage[2]	2.31	2.46	2.72	2.92	2.95	**2.67**
Liquidity ratios						
Net cash flow to fixed assets and intangible assets[3] (in %)	128.7	107.1	99.5	88.9	109.1	**45.6**[4]
Self-financing[5] (in %)	73.4	56.3	78.4	58.6	86.5	**43.9**[6]
Funds from operations to average total debt[7] (in %)	7.8	8.9	10.9	11.7	12.7	**11.1**
Profitability ratios						
Return on revenue from continuing operations[8] (in %)	13.6	18.8	21.0	21.6	25.1	**21.4**
Return on equity[9] (in %)	11.5	13.2	15.5	13.4	20.7	**13.1**
Capital structure ratio						
Capitalization[10] (in %)	26.2	29.8	32.8	34.2	36.1	**37.2**
Average cost of debt[11] (in %)	7.8	7.8	7.0	7.6	7.9	**8.4**
DIVIDENDS[12] (in millions of dollars)	763	965	1,350	1,126	2,342	**1,272**

Note: Certain comparative figures have been reclassified to reflect the presentation adopted for 2006.

1. Sum of operating income and net investment income divided by gross interest expense.
2. Earnings before interest, taxes, depreciation and amortization divided by gross interest expense.
3. Cash flows from continuing operations less dividends paid by fixed assets and intangible assets.
4. The reduction in this ratio in 2007 is largely attributable to the substantial payout of dividends for 2006.
5. Cash flows from continuing operations less dividends paid, divided by sum of investments, long-term debt maturities and sinking funds redemptions.
6. The reduction in this ratio in 2007 is largely attributable to the substantial payout of dividends for 2006.
7. Net income before extraordinary items, depreciation and amortization, AEFUDC, deferred income taxes and non-controlling interest divided by the sum of long-term debt, perpetual debt, non-controlling interest, short-term borrowings and current portion of long-term debt (yearly average).
8. Net income from continuing operations divided by revenue.
9. Net income divided by average shareholder's equity.
10. Shareholder's equity divided by sum of shareholder's equity, long-term debt, perpetual debt, short-term borrowings and current portion of long-term debt, less swaps and sinking funds.
11. Sum of gross interest, net loss (gain) on repayment of long-term debt and exchange loss (gain) and guarantee fees divided by sum of long-term debt, perpetual debt, short-term borrowings and long-term debt payable within one year (annual average), less swaps and sinking funds.
12. Dividends declared for a given year are paid the following year.

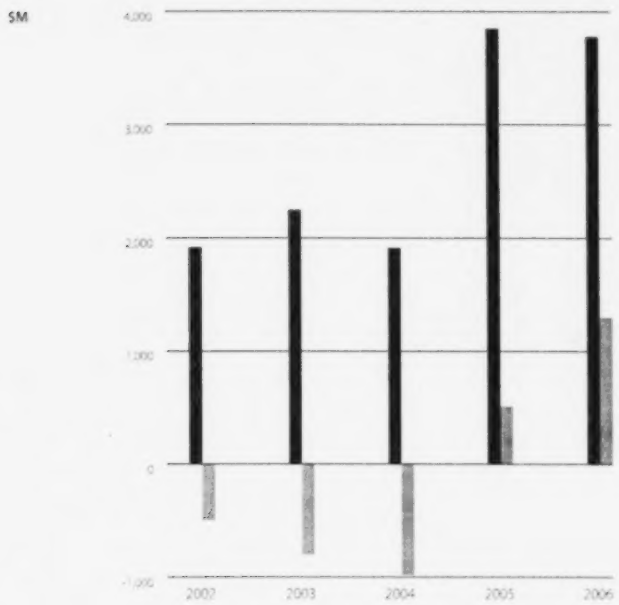


A 69-kV substation has been built to serve the Cree community of Waskaganish.



La Grande-3 hydroelectric generating facility.

Financing Needs 2002–2006[1]



The 2007 borrowing program amounts to $1.1 billion, based on the investment program, payment of the 2006 dividend, debt maturities and funds from operations.

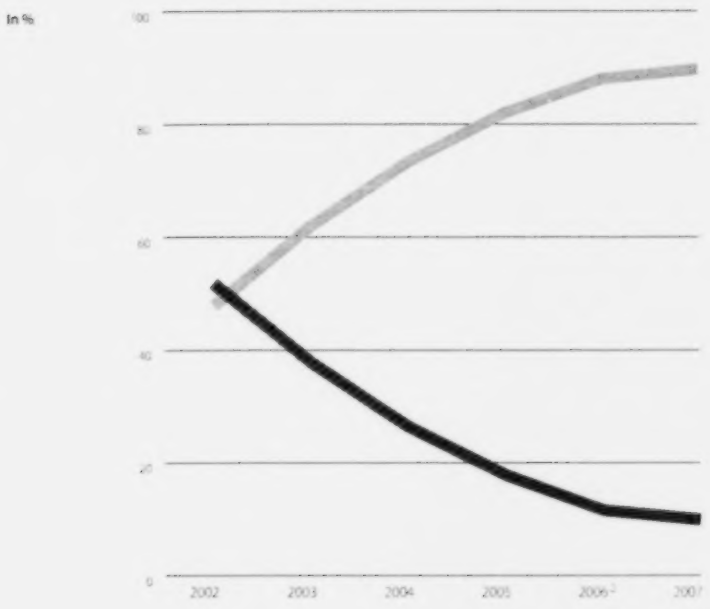
	2002	2003	2004	2005	2006
Gross borrowing	1,918	2,248	1,916	3,855	3,781
Net borrowing (or repayment)	(495)	(797)	(979)	515	1,298

1. The analysis deals with the financing activities of Hydro-Québec, excluding its subsidiaries and holdings.

Market

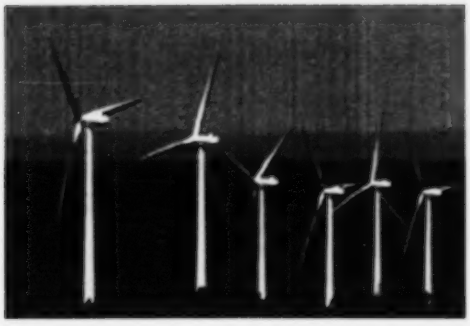
	2002	2003	2004	2005	2006
Canadian	100%	100%	100%	100%	100%
Other market	0%	0%	0%	0%	0%

Breakdown of Debt by Repayment Currency 2002–2007[1]



						Forecast
U.S. dollars	52.0%	37.9%	26.5%	17.8%	11.6%	9.8%
Canadian dollars	48.0%	62.1%	73.5%	82.2%	88.4%	90.2%

1. Debt of Hydro-Québec, excluding perpetual debt, subsidiaries and holdings. For more details, see table on page 34. The debt is translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date.
2. Exchange rate: C$/US$1.1653.



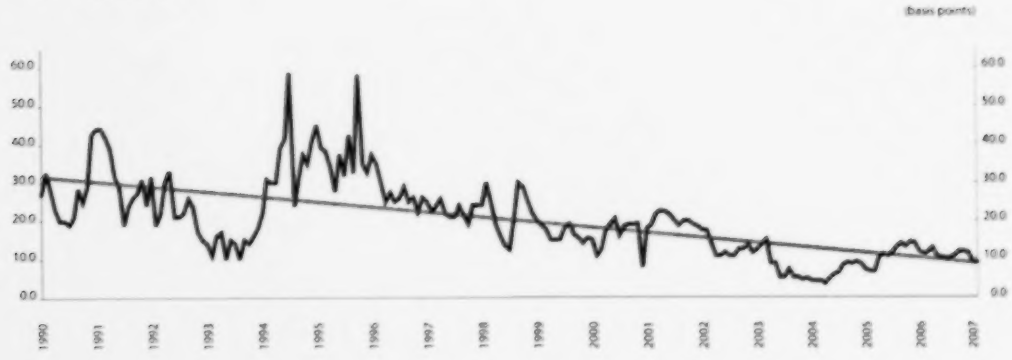
In 2014, Québec will be able to count on nearly 4,000 MW in wind power.

A 128-km, 161-kV transmission line is being built to connect Péribonka generating station with Simard substation.

10-Year Canadian Bond Spreads

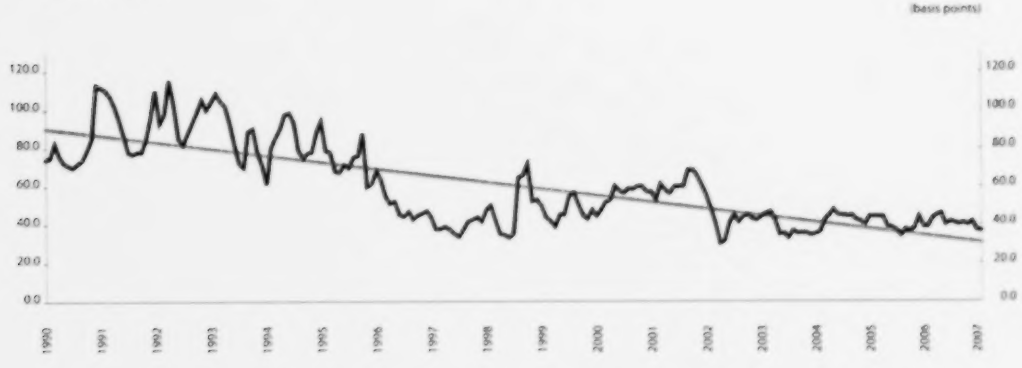
QUÉBEC-ONTARIO 1990–2007

Source: Hydro-Québec

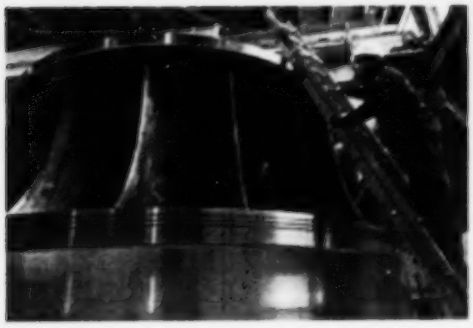


QUÉBEC-CANADA 1990–2007

Source: Hydro-Québec



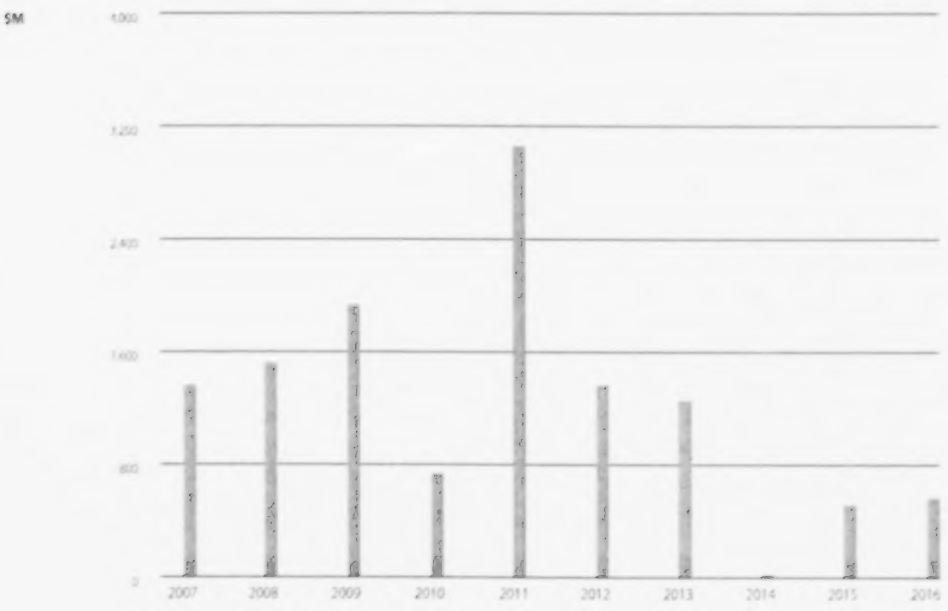
The long-term performance of Québec's credit spreads continues to show a clear positive trend. The spreads remain at a level close to the best values recorded during the period observed.



Installation of a turbine runner at Eastmain-1 powerhouse.

Work proceeds at Eastmain-1 hydroelectric development.

Debt Maturities 2007–2016

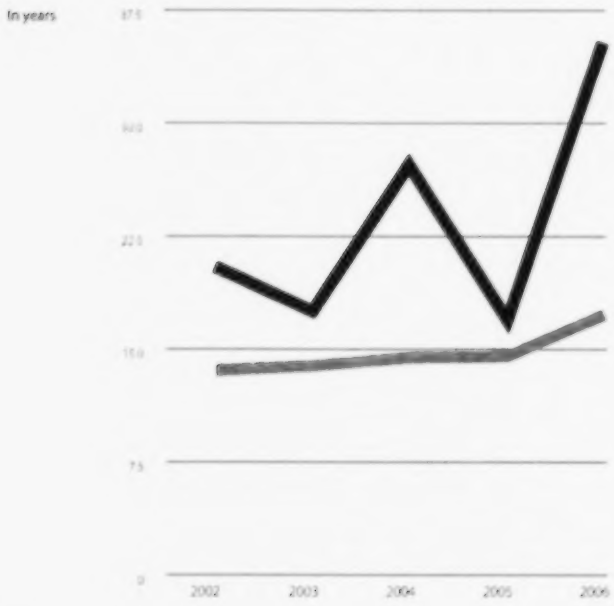


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt Maturities[1]	1,356	1,517	1,930	734	3 054	1,361	1,255	17	515	563

1. Excluding sinking funds and swaps that are financial assets related to debt.

Stocking water bodies with fish is an important part of the environmental mitigation measures for our hydroelectric projects.

Average Maturity of Debt 2002–2006[1]



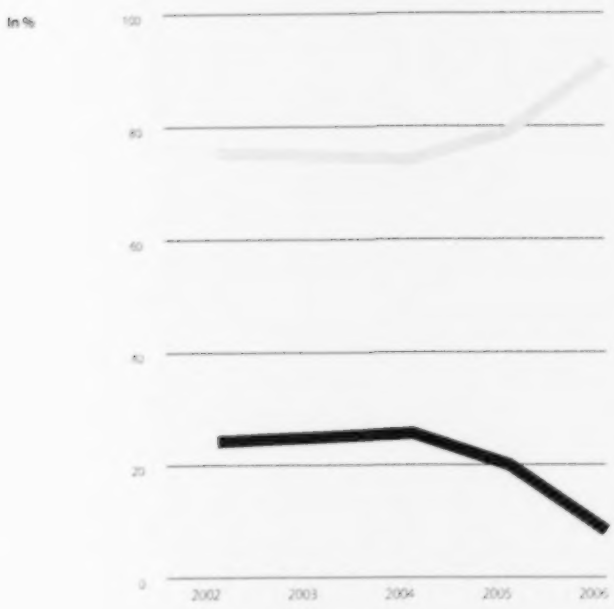
	2002	2003	2004	2005	2006
Average maturity of borrowings for the year	20.5	17.5	27.3	16.9	35.4
Average maturity of debt	13.5	13.9	14.5	14.8	17.3

1. The analysis deals with the financing activities of Hydro-Québec, excluding its subsidiaries and holdings.

A bicycle path that links Québec and New Brunswick runs over a footbridge beside Témiscouata dam.

The Cleanova II electric vehicle is powered by a motor developed by Hydro-Québec joint venture TM4.

Breakdown of Total Debt by Fixed and Floating Rate 2002–2006[1]



	2002	2003	2004	2005	2006
Fixed-rate debt (%)	75.7	75.2	74.3	79.9	91.8
Floating-rate debt (%)	24.3	24.8	25.7	20.1	8.2
Total (in $M)	**37,631**	**33,357**	**31,973**	**32,237**	**33,309**

1. The analysis deals with the financing activities of Hydro-Québec excluding its subsidiaries and holdings. The debt is translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date.
2. Exchange rate: C$/US$ 1.1653.

Evolution of Components of Total Debt 2002–2006[1]

(in millions of dollars)

	2002	2003	2004	2005	2006[2]
Long-term debt	34,573	32,292	31,387	31,151	34,104
Current portion of long-term debt	2,761	1,609	1,908	3,141	1,350
Swaps and sinking funds (short and long-term)	-335	-984	- 1,713	-2,434	-2,482
Perpetual debt	632	440	391	379	337
Total debt	**37,631**	**33,357**	**31,973**	**32,237**	**33,309**

1. The analysis deals with the financing activities of Hydro-Québec excluding its subsidiaries and holdings. The debt is translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date.
2. Exchange rate: C$/US$ 1.1653.

Preauthorized Financing

Type of financing	Volume authorized	Market	Maturity	Outstanding at December 31, 2006
Lines of credit	US$350 million or C$350 million C$40 million US$110 million			
Standby line of credit[1]	US$2 billion[2]			
Commercial paper[1]	US$2,250 million or C$ equivalent	United States or Canada	Max. 364 days Max. 365 days	C$25 million
Medium-term notes[1]	US$3,000 million or equivalent in other currencies	United States	9 months or longer	US$519.7 million
	C$16,000 million or US$ equivalent	Canada	1 year or longer	C$12,335.8 million

1. Guaranteed by the Québec government.
2. May be extended annually by one year.

Guarantee of the Corporation's Debt

The Corporation's long-term debt in 2006 includes $33,436 million in debentures and medium-term notes that are guaranteed unconditionally and irrevocably by the Québec government. Short-term borrowing programs, such as commercial paper and standby lines of credit, are also guaranteed by the government.

Certain private placements, capital leases and swaps representing financial liabilities, totaling $2,018 million, are not guaranteed by the Québec government.

CURRENT CREDIT RATINGS	Long-term debt	Commercial paper
Moody's	Aa2 stable	P-1
Standard and Poor's	A+ stable	A-1+
Fitch Ratings	AA- stable	F1+
Dominion Bond Rating Service	A (high) stable	R-1 (middle)

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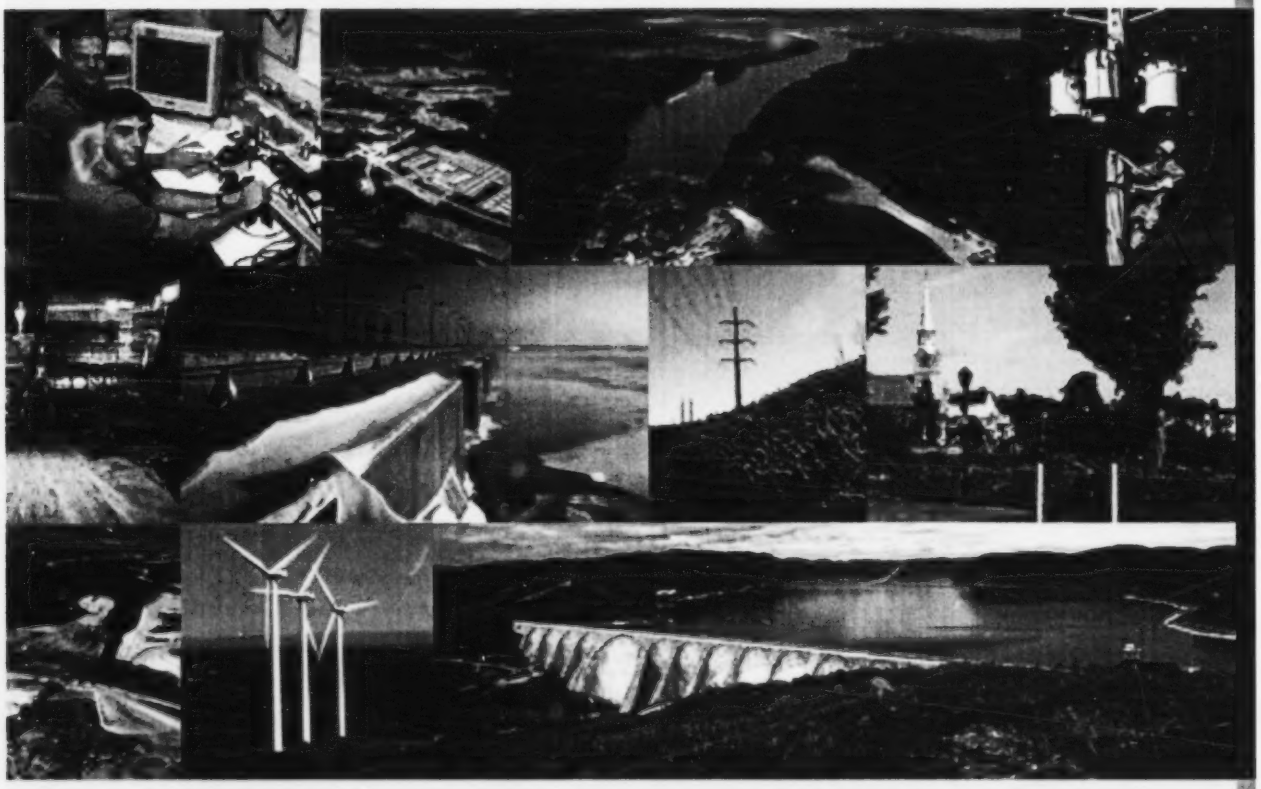

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